

Iowa Telecommunications Association
 Reply Comments CC Docket No. 96-45 (Report to Congress)
 February 6, 1998

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Before the
Federal Communications Commission
 Washington, D.C. 20554

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In the Matter of:

Federal-State Joint Board on
 Universal Service

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CC Docket No. 96-45
 (Report to Congress)

FEDERAL COMMUNICATIONS COMMISSION
 OFFICE OF THE SECRETARY

REPLY COMMENTS
 of the
IOWA TELECOMMUNICATIONS ASSOCIATION

The Iowa Telecommunications Association (hereafter "ITA") respectfully submits its reply comments in the above-referenced proceeding. In large part the comments are written in response to the Comments previously filed by the Iowa Utilities Board (hereafter "IUB").

Assessment of Intrastate Revenues to Support a Federal Universal Service Fund

We concur with the comments of the IUB that the Commission should not apply assessments to intrastate revenues for the purposes of supporting the federal universal service fund. As pointed out by the IUB, Section 254(d) and (f) of the Telecommunications Act of 1996 (hereafter "the Act") give the Commission and the state commissions authority to assess carriers that provide interstate and intrastate services respectively. In the absence of clear authority for the Commission to assess intrastate revenues to support the federal universal service fund, it appears more appropriate and more consistent with past precedent and with the Act that the Commission assess interstate revenues and the states assess intrastate revenues.

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Use of Federal Universal Service Support

The ITA concurs in the IUB's concerns regarding the Commission's proposals regarding how the universal service funds (USF) will be used in the future. Under the rules regarding universal service that have been in place for several years there has been an allocation of cost, equal to the USF funds received, was transferred from the state to the interstate jurisdiction. At the state level, these reductions in state costs were primarily translated into lower local service rates for end user customers. The table below illustrates the impact of this USF expense transfer for a small telephone company:

Table I

	Total Company	Interstate	State
COST DETERMINATION			
Cost before USF expense adj.	\$947,255	\$528,681	\$ 418,574
USF Expense Adj.	\$ 0	<u>\$132,456</u>	<u>\$(132,456)</u>
Adjusted Cost to Recover	<u>\$947,255</u>	<u>\$661,137</u>	<u>\$ 286,118</u>
REVENUE RECOVERY			
Interstate Access Charges to Toll Carriers	\$528,681	\$528,681	
Interstate USF charges to Toll Carriers	\$132,456	<u>\$132,456</u>	
State Local and Access Charges	<u>\$286,118</u>		<u>\$286,118</u>
Total Revenue Recovery	<u>\$947,255</u>	<u>\$661,137</u>	<u>\$286,118</u>

In various pronouncements the FCC has ordered that changes in the way that the costs and revenue recovery take place under the new federal universal service fund. These changes will impact non-rural telephone companies starting on January 1, 1999. For the time being the existing rules and practices continue to apply for rural companies at least until January 1, 2001. The changes promulgated by the FCC apparently eliminate

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the USF expense adjustment that transfers cost from the state to the interstate jurisdiction.¹ Furthermore, although not specifically included in FCC rules at the present time, the FCC in its Access Reform Order² specifically directed "...incumbent LECs to use any universal service support received from the new universal service mechanisms to reduce or satisfy the interstate revenue requirement otherwise collected through interstate access charges."³

Assuming that the example company used above is a non-rural company and assuming that the interstate USF amount identified under the new mechanisms was identical to that the company currently recovers, these two changes substantially change the cost identification and revenue recovery of the company as illustrated below:

Table II

	Total Company	Interstate	State
COST DETERMINATION			
Cost before USF expense adj.	\$947,255	\$528,681	\$ 418,574
USF Expense Adj.	\$ 0	\$ 0	\$ 0
Adjusted Cost to Recover	<u>\$947,255</u>	<u>\$528,681</u>	<u>\$ 418,574</u>
REVENUE RECOVERY			
USF Assessment to Local and Toll Carriers	\$132,456	\$132,456	
Interstate Access Charges to Toll Carriers	\$396,225	\$396,225	
Interstate USF charges to Carriers	\$ 0	\$ 0	
State Local and Access Charges	<u>\$418,574</u>		<u>\$418,574</u>
Total Revenue Recovery	<u>\$947,255</u>	<u>\$528,681</u>	<u>\$418,574</u>

¹ Specifically the FCC's rules in §36.601(c) provide in part, "Beginning January 1, 1999, non-rural carriers shall no longer receive support pursuant to this Subpart F." §36.601(a) specifically identifies the expense adjustment transfer. It is the industry understanding that this sentence intends to remove the USF expense adjustment for the non-rural companies.

² First Report and Order, CC Docket 96-262, released May 16, 1997, FCC #97-158.

³ Ibid., Para. 381.

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In comparing Table II with Table I one can identify two primary changes. First, the state jurisdiction has an increased revenue recovery responsibility that must be met. On a percentage basis the increased revenue necessary equates to a 46% increase in the state revenues. For this particular company with 518 lines, the increase equates to a monthly revenue increase necessary of \$21.31 per month. The second thing that is evident from the comparison is that the USF benefit which under Table I was being provided to the state and the end user customers is now being flowed through instead in reductions to the rates toll carriers are required to pay. This does not seem consistent with the universal service aspects of the Act. The ITA supports a change in FCC rules and orders to continue the USF expense transfer from the state to the interstate jurisdiction that is included in the existing rules so that USF funding will continue to support lower local rates rather than lower rates to toll carriers.

Federal Universal Service Fund Support Responsibility

Coupled with the issue raised in the section above, the Commission's decision to fund only twenty-five percent (25%) of the amount necessary to support universal service clearly diminishes the support being given to rural end-user customers from the federal universal service fund to keep local service rates affordable. The ITA supports the comments of the IUB regarding the impacts that implementing the reduced funding amount will have on end user customers in states with high cost and low population. The ITA supports a revision in the 25% funding level that is currently proposed by the FCC in conjunction with the changes in the expense allocation discussed in the previous section.

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State Network Issue

The ITA strongly disagrees with the IUB on its proposal to change, by legislation, the definition of "telecommunications service" to include private network providers (including state networks) as recipients of funds for providing services to schools and libraries. Particularly in rural areas, increased usage of telecommunications networks providing services to the public decreases the per unit cost of providing those services and assist in lowering telecommunications service costs and thus enhancing the provision of universal service to all public network users. The ITA supports the intent of the Act to provide universal service support, even for schools and libraries, only to those telecommunications carriers which are providing services to the public so that the provision of universal service is enhanced.

Respectfully Submitted,

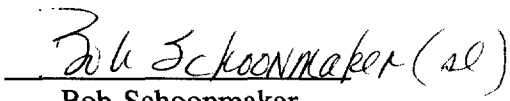
J. Kent Jerome (sl)

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February 6, 1998

CERTIFICATE OF SERVICE

I, Bob Schoonmaker, hereby certify that a copy of the foregoing Reply Comments of the Iowa Telecommunications Association in CC Docket 96-45 was served on this 6th day of February, 1998, by first class, U.S. mail, postage prepaid, to the following parties on the attached pages:


Bob Schoonmaker

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